



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 10/11/2006

GAIN Report Number: GM6039

Germany

Dairy and Products

German Dairy Farmers Halved Overproduction in MY 2005/06

2006

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Report Highlights:

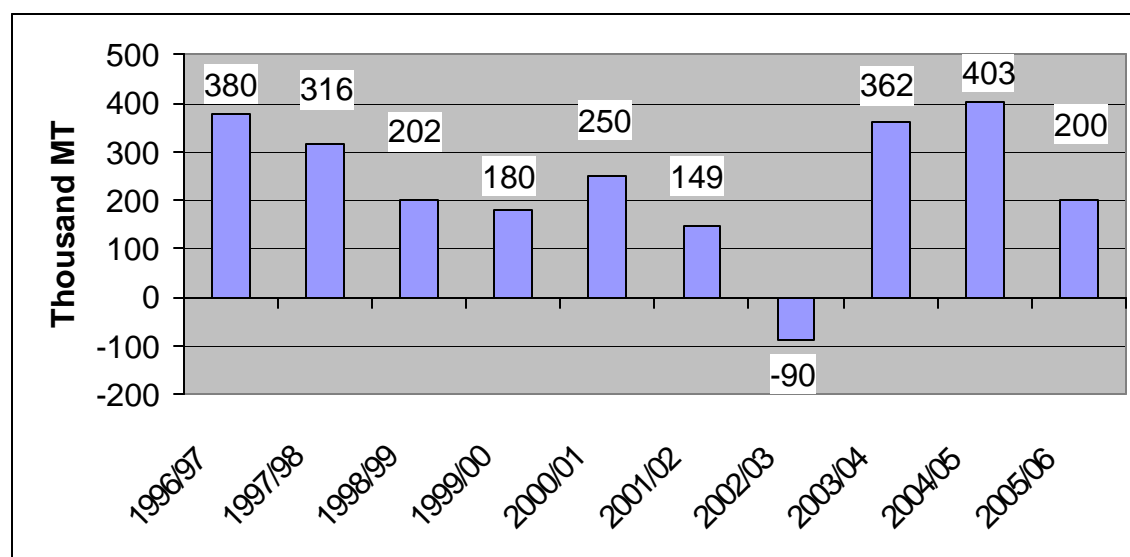
German dairy farmers exceeded their milk quotas by a total of 200,700 MT or 0.7 percent in milk quota year 2005/06. However, overproduction was halved compared to the previous MY 2004/05 when it amounted to 403,000 MT or 1.4 percent of total production. As a result of the excess production, farmers have to pay superlevies of US\$ 79 million (Euro 62 million).

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Berlin [GM1]
[GM]

In milk year 2005/06 (April/March) German dairy farmers exceeded their milk quota by 200,700 MT or 0.7 percent of total production, based on adjusted fat content. This compares to an overproduction of 403,000 MT or 1.4 percent of total production in 2004/05. The overproduction triggers fines, which are also called superlevies. In MY 2005/06, superlevies totaled \$79 million¹ (62 million Euro). In MY 2004/05 Germany paid superlevies totaling \$170 million (Euro 134 million).

The German quota for 2005/06 was 27,768,700 MT. During the CAP reform negotiations, members agreed to increase the milk quota in three installments of 0.5 % each beginning in 2006/07. For Germany, this translates into a quota of 28,004,140 MT in 2006/07 and a total increase of 417,972 MT over three years. Milk deliveries in the first four months of the milk year (April through August 2006) suggest that the quota will not be fully used in 2006/07.

Table 1: Quota overproduction by German Dairy Farmers



Reasons for oversupplying the quota

Several reasons exist for overproduction:

1) Calculation method and time lag

In Germany, the actual amount of superlevies per farm is calculated in a complicated process after the end of the marketing year. Due to this delay, farmers have a difficult time gauging what their actual superlevies will be.

The superlevies are set in EU regulation 1788/2003². For MY 2005/06, the fine is set at 30.91 Euro per 100 kg of milk³. However, farmers do not always have to pay for 100 percent of their individual overproduction. If other farmers do not fully use their quota, the unused share is reallocated to other farmers, thereby, offsetting the overproduction. This "balancing" is done first among the members of each individual dairy ("dairy level") and subsequently, on the national level.

¹ Exchange rate: 1 Euro = 1.270975 U.S. \$, 1 U.S.\$ = 0.7868 Euro, as of July 26, 2006

² EU regulation 1788/2003 establishing a levy in the milk and milk products sector, OJ L270 pages 123 -136

³ The fines decrease in line with the reduction of the intervention price. In MY 2004/05 the fine per 100 kg of milk was set at 33.27 Euro, in MY 2006/07 it will be 28.54 Euro.

For example, at the end of MY 2005/06, the individual overproduction on the national level, after reallocation on the dairy level, totaled 331,000 MT while the remaining unused quota amounted to 129,000 MT. Since the unused quotas were reallocated, only 202,000 MT or 61 % of the total remaining overproduction were subject to superlevies. These fines totaled U.S. \$ 79 million (Euro 62 million). Each farmer, who overproduced, paid a fine of 30.91 Eurocents per kg for 61 percent of their overproduction, which translates into 18.9 Eurocents per kg. The high superlevies in MY 2004/05 resulted in lower milk deliveries in the last quarter of MY 2005/06. When it became apparent that the quota would be exceeded again, some farmers adjusted their deliveries to avoid the superlevies. However, other farmers did not adjust their deliveries. Instead, they took a gamble hoping that other farmers would supply less milk and thus reduce the overall fine.

2) Cash Flow

In CY 2005, milk prices averaged between 26.57 and 28.35 Eurocents per kg, depending on the region. As a result of the 18.9 Eurocents per kg superlevy, dairy farmers were only able to generate a turnover of roughly 7 to 9 Eurocents per kg for the milk produced in excess of their quota. This was not sufficient to cover production costs, but it allowed farmers to generate some cash flow.

3) Herd management

It is not always possible to plan production right on target. If feed quality or the pregnancy rate are better than expected, this might result in higher than planned milk production. In this situation farmers would have to reduce the number of their cows to remain within their quota. But as one farmer put it: "No one kills a healthy cow". They would rather pay the fine and try to purchase additional quota the following year.

Changes in the quota management

As of quota year 2006/07, reallocation of unused quota is limited to ten percent of a farmer's quota⁴. This adds pressure on farmers who routinely overshoot their quota. Now, overproduction requires farmers to buy additional quota to avoid superlevies. According to industry sources, the new policy will only affect a handful of farmers as the number of farms that overproduce is well below 10 percent. The change in quota management is expected to have only a small impact on excess production.

Background information on the German dairy sector

In November 2004, Germany registered 108,000 dairy farmers and 4.2 million dairy cows. This compares to 136,000 dairy farmers and 4.5 million dairy cows in November 2000, and 275,000 dairy farmers and 4.8 million cows in November 1990. The decline in dairy cows is due to increased milk production per cow. The decline in dairy farmers is due to economic pressure and industry consolidation.

Related reports:

Report number	Title	Date released
GM4024	German dairy farmers exceeded their milk quota by 362,000 MT in milk year 2003/04.	7/7/2004
GM5028	German dairy farmers face \$163 million in superlevies for MY 2004/05	8/8/2005

⁴ For example, farmer A and farmer B have each have a quota of 100,000 MT. Farmer A produces 50,000 MT and farmer B produces 200,000 MT. Farmer B would have to pay fines for 50,000 MT under the old system, but for 90,000 MT under the new system.